

Great Sweet Grass Oils Limited

MAR 31 1960

ANNUAL AND SPECIAL REPORT TO SHAREHOLDERS

*INCLUDING FINANCIAL STATEMENTS
FOR THE TEN MONTHS PERIOD ENDING
OCTOBER 31, 1959 AND THE FISCAL PERIOD
ENDING DECEMBER 31, 1958*

1960
GREAT SWEET GRASS OILS LIMITED
(Incorporated in the Province of Ontario)

Directors

Robert B. Berger
George Brussel, Jr.
Honorable James H. R. Cromwell
Alban H. Norton
Maj. Gen. Charles A. Willoughby (USA Ret.)

Officers

<i>President</i>	Honorable James H. R. Cromwell
<i>Vice President</i>	Robert B. Berger
<i>Vice President</i>	George Brussel, Jr.
<i>Vice President and General Manager</i>	Alban H. Norton
<i>Secretary</i>	John B. Tinker
<i>Treasurer</i>	Maj. Gen. Charles A. Willoughby (USA Ret.)

Executive Office

59 East 54th Street, New York 22, N. Y.

Operations Office

433 Fourth Avenue S.W.
Calgary, Alberta

Secretary's Office

17 Queen Street East
Toronto 1, Ontario

Registrar and Transfer Agent

Premier Trust Company
Toronto, Ontario

Capitalization

<i>Authorized</i>	5,000,000 shares of 20¢ par value
<i>Issued and Outstanding</i>	5,000,000 shares
<i>Number of Shareholders</i>	12,800

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March 15th, 1960

DEAR FELLOW SHAREHOLDERS:

**Important Developments Since My November 1959 Report Make It Necessary to Call
Another Meeting of Our Shareholders on April 4th, 1960.**

To place these developments in perspective: In my previous report I summarized the steps being taken by your new management to rehabilitate Sweet Grass. The Company, when present management took over, was in a precarious condition, its treasury emptied of cash, its credit at the lowest ebb and its reputation tarnished by charges of mismanagement and worse. After extensive investigation of transactions entered into by the former regime the Directors authorized your Canadian solicitors to institute two actions against some members of the former regime and others, claiming they had dealt improperly with the assets of the Company. In my 1959 report I told you how a realistic re-appraisal of the Company's assets and potentials had brought new interest and confidence in its future and made it possible for us to secure advantageous loans and to negotiate plans for expansion.

My report, however, stressed the serious lack of operating capital necessary to consummate certain features of our program, and your management asked shareholders to approve essential changes in the Company's capital structure. These and other proposals to place your Company on a profit basis received most impressive support from our shareholders at the meeting held November 25th, 1959.

Out of a total of 2,494,533 shares voted, 2,384,064 were voted in favor of your management.

Capital Expansion

An opportunity to secure additional capital funds to hasten our program of expansion has now arisen which, added to the revision of our financial structure, should help us to strengthen our position, to obtain the earliest possible re-listing of our shares on the American and Toronto Stock Exchanges, and to diversify our operations through merger-acquisitions which present conditions in the petroleum industry render advisable. It is obvious that adequate operating capital is one of the indispensable factors to any such rehabilitation and expansion program.

The need of urgent action on both fronts, viz, the necessary changes in our financial structure and the obtaining of new capital, is underlined by a Court decision handed down December 7, 1959, in the partition suit which directly affects our 50% interest in the Richardson oil and gas lease in Oklahoma. Under this Court decision, we must either be ready to bid in at public auction 100% of the lease (if it can be purchased at the intrinsic value independent geologists have placed upon it) or suffer the consequences of a forced sale of our present 50% interest in the Richardson lease. Unless we obtain the necessary funds, we cannot safeguard the Company's interests at the forthcoming public auction which is scheduled to take place probably **within a month**.

Private Financing of Sweet Grass Securities

Fortunately, negotiations that have been in progress since my November report with a financial firm in New York have resulted in the signing, on February 15th, of an agreement for *private investment* in your Company that would substantially add to our cash position.

Under this agreement the New York firm undertakes to use its best efforts to raise a maximum of \$975,000 new cash capital for the Company through placements within a small number of investors. It is anticipated that a minimum of \$281,250 would be made available to the Company promptly after authorization and confirmation by shareholders of the proposed changes in capitalization. This placement will not constitute a public offering.

Equal Rights for Shareholders

The agreement specifically provides that your Company reserves the right to offer to its shareholders up to \$500,000 of convertible mortgage bonds and/or 500,000 convertible preference shares *at the same price* as such securities will be offered to the private investors. This right will become operative as soon as your management can effect full registration with the Securities and Exchange Commission at Washington, D. C. and the Securities Commissions in various Canadian Provinces as is or may be required in offering securities to shareholders. We have been advised by counsel that it may take anywhere from three to six months to effect such registration.

The following is a description of the new securities to be issued under the agreement of February 15th, 1960:

6% Convertible Mortgage Bonds: Face amount of \$975,000 to be authorized in units of \$100. The bonds will be registered and payable in 15 years; they will be convertible at the holder's option into the new common stock at the rate of 100 shares of common stock for each \$100 face value of the bonds, subject to protection against dilution; they will be callable by the Company at \$110 after five years from issuance, with the premium diminishing at the rate of 1% per year until the expiration of the 15-year maturity; they will be secured by a mortgage on certain of the Company's properties including fixed plant, a floating charge on the assets of the Company and a pledge of the shares of Great Sweet Grass Oil Company, your Company's wholly-owned Oklahoma subsidiary, but subordinated to bank loans presently outstanding and to other institutional financing having a term exceeding one year. After 5 years, there will be a sinking fund charge against the net earnings of the Company sufficient to retire 10% of the face value of the bond issue each year.

6% Convertible Preference Shares: 2,000,000 shares at 20 cents par value to be authorized, carrying a 6% cumulative dividend; they will be convertible into common stock at the holder's option, at the rate of five preference shares for one share of common; the conversion ratio is subject to adjustment provisions designed to protect the preference shareholder from suffering dilution of his right to convert in the event of stock splits, consolidations or other similar changes in the common shares. The preference shares will be redeemable at par after 15 years from the date of issuance; and will be entitled to one vote for each share on all matters equally with the common stock. Preference shares are commonly called "preferred stock" in the United States.

A full description of the proposed preference shares is contained in Special Resolution No. 5 as printed on the form containing the Notice calling the meeting.

In accordance with the terms and conditions of the February 15th agreement, purchasers of convertible mortgage bonds may simultaneously purchase the preference shares, at the rate of one preference share for each \$1.00 principal amount of bonds purchased. Bonds may be bought without buying preference shares, but preference shares cannot be bought without buying bonds except by the authority

of the Directors. On these conditions and as previously stated, your Company intends to offer to its shareholders at a future date \$500,000 of 6% convertible mortgage bonds along with 500,000 shares of 6% convertible preference shares at the same price as offered to the private investors.

Purchase of Fractional Shares

If the shareholders approve and confirm the proposed recapitalization of the Company and Supplementary Letters Patent are issued consolidating the present 5,000,000 issued shares in the capital of the Company into 1,000,000 shares, shareholders will then own one consolidated share for each 5 shares presently owned. Fractional share interests will occur where individual shareholdings do not divide equally by 5. The Company is prevented by law from registering fractional share interests and, therefore, shareholders with less than 5 shares will, after the consolidation, not be entitled to be registered on the books of the Company. Shareholders will be entitled to surrender their present share certificates in exchange for new certificates representing consolidated whole shares and bearer fractional certificates representing fractions of a whole share. Bearer fractional certificates may be transferred by delivery and holders of bearer fractional certificates will be entitled either to sell their certificates on the market or to purchase other certificates to make up one or more whole shares. Holders of bearer fractional certificates aggregating one or more whole shares will be entitled to be entered as shareholders on the books of the Company and to receive a share certificate representing such one or more whole shares.

Confirmatory Action

In addition to the important developments already cited, another reason for calling a shareholders' meeting at this time is the fact that the regularity of our November meeting was challenged by a single shareholder, purporting to act on behalf of himself and all the other shareholders. Out of over 14,000 shareholders to whom proxies were mailed, this one shareholder sought to prevent the meeting from being held principally on the ground that he did not receive notice within the legally prescribed time.

Litigation to establish the validity or invalidity of the meeting would be expensive and time consuming. Since it is necessary to have a shareholders' meeting to authorize the creation of the new preference shares required for financing, both an Annual as well as a Special General Meeting have been called for April 4th.

Therefore, at the Special General Meeting on that date shareholders will be asked to confirm action taken at the previous meeting. To carry out the new financing, Special Resolution No. 3, which was approved at the last meeting, has been rescinded and replaced by Special Resolution No. 5. This new resolution provides for the same changes in capitalization as before, except for the creation of 2,000,000 preference shares.

Under the borrowing resolution (By-Law No. 74), which the shareholders approved at the last meeting, your Board of Directors would have the power to make the indenture required to secure the new bond issue. The authority to amend the Company's letters patent by redividing its authorized capital so that the 5,000,000 shares of the par value of 20 cents now outstanding shall become 1,000,000 shares of \$1.00 par value and by increasing our capital stock by an additional 4,000,000 shares, is likewise the same action taken by shareholders last November.

In short, it should be noted that with the exception of the authorization of the new preference shares, all other matters to be presented are similar to those approved by shareholders at the last meeting.

Financing Costs

It has been agreed that the New York financial firm shall receive a 25% commission for the proposed private placement of our securities. Of this amount one quarter will be payable in cash,

and three quarters will be re-invested in the new convertible bonds and preference shares of the Company, in such proportions as may be determined by your Board of Directors. We consider the decision of this firm to re-invest three quarters of its commission in our new securities to be a mark of confidence in the future of our Company. This is particularly gratifying at a time when financing is generally difficult to obtain.

Assurances Required by Investors

It is a condition to the placement of securities of your Company, that the investors be protected against any possible return of control to persons who would engage in practices which might dissipate your Company's assets or expose it to public criticism. The New York financial firm believes that without such assurances, a relisting of the Company's securities will be impossible, as evident from the attitude of certain members of the listing committee of the Toronto Stock Exchange in the matter of re-listing Sweet Grass shares. I quote as follows from my report of November 11th, 1959, Page 4:

"Some members of the listing committee of the Toronto Stock Exchange . . . stated frankly that they would not countenance control of your Company by former administrative interests, directly or indirectly, and it is the expressed view of our Canadian counsel that the listing committee would not want to list this stock and find that within a short time of the listing some material change in the control and policy of the Company had occurred."

Furthermore, because the legality of the November 25th meeting was challenged by certain interests in Toronto, the investors require the validation of actions taken at that meeting which can be accomplished by the confirmation of the By-Laws and Special Resolutions to be considered at this meeting.

Your management, therefore, feels that it would be inadvisable to announce the name of the New York financial firm until we are in a position to give it the assurances it must have. Complete details will be announced promptly after the shareholders, at the April meeting, have approved the necessary measures giving the Company authority to consummate the agreement with the financial firm. In the meantime, shareholders may be informed that we have assured ourselves of the integrity, reliability, and experience of this particular firm.

Advantages of the New Financing

It is agreed that two of the financial firm's representatives will be added to our Board of Directors to fill the vacancies which will be created by formal confirmation at the April 4th meeting of the increase in the number of Directors from five to seven. But the shareholders will be asked to elect only 5 Directors at the Annual Meeting. At the Special General Meeting, following the Annual Meeting, the shareholders will be asked to confirm an increase in the Board of Directors from 5 to 7. Accordingly, after this confirmation, and the completion of the proposed financing, the Board of Directors will be able to appoint 2 Directors named by the financial firm as agreed.

Among the advantages of the new financing recommended by your Board of Directors for shareholder's approval are the following:

1. The new capital will enable your Company to act promptly with respect to opportunities for property acquisitions. At a time when the oil industry is confronted with the seeming problem of over-production, favorable opportunities are arising in this field.

2. It will enable us to obtain the cash required to bid for the Richardson lease, at a price to be determined by our engineers and advisers.

3. It should enable us to increase the Company's net earnings. For example, the possible purchase of the entire Richardson lease would nearly double our gross oil and gas production in Oklahoma, assure a marked decline in lifting costs, and at the same time, require only a minimal increase in general overhead costs.

4. It should facilitate the re-listing of the Company's shares by the Toronto and American Stock Exchanges.

5. It will enable us to seek diversification which is an increasingly important factor in our future growth.

6. The substantial interest which the new investors will have in the Company is insurance for shareholders that those who nearly wrecked Sweet Grass shall not be able to gain control of the Company in the future.

Almost as important a factor as fulfilling our capital needs is that we shall have the guidance and aid of an experienced financial firm in meeting the problems of growth contemplated in the expansion program for Sweet Grass.

Financial

Our financial statements for the first ten months of 1959 show some of the results of your management's continuing efforts to maintain revenues while seeking to raise the earnings of your Company to a profitable operating level.

The \$250,000 bank loan negotiated with the Empire Trust Company was reduced in December, because of the financing then in prospect, to \$175,000, with a correspondingly lesser pledge of our assets.

Alerting Our Shareholders

The situation with respect to litigation remains about the same as set forth in my November Report, except the previously mentioned suit commenced in Toronto by a shareholder, Saul Shubin, to prevent the holding of the November 25th, 1959 meeting. Although lack of notice was alleged as a reason for seeking to prevent that meeting, Mr. Shubin, on cross-examination by your Canadian counsel, admitted that he had seen a copy of the President's report to shareholders before the time expired for giving notice of the November meeting.

Shareholders should be informed that Mr. Samuel Ciglen of Toronto, one of the principals in the suit brought by your Company for rescission and/or damages arising from transactions charged to former management, has now brought suit against your Company and your directors individually on the grounds of an alleged agreement to accept his offer of settlement. This offer, as stated in my last report, was declared by your Board to be completely inadequate.

The pending action by Mr. Shubin may be considered against the background that Mr. Shubin also admitted on cross-examination that he had visited the office of Mr. Ciglen to obtain information prior to bringing his own action, and that in the material filed by Mr. Shubin, was a notice of the November meeting sent to Mr. Louis Pancer, another defendant in your Company's suit for restitution.

Mr. Pancer is a mining engineer who occupied an office with the law firm headed by Mr. Ciglen and was part owner of a firm of consulting geologists. It was with the assistance of this firm that Mr.

Morris Black, a former officer of Sweet Grass and another principal defendant in the previously mentioned suit, acquired 41 mining claims at a cost of \$1,640 early in 1955. Through a series of transactions during 1955 and 1956, these claims were transferred to Sweet Grass at a total cost which your present management alleges was \$1,363,000 more than their real value.

Obviously Sweet Grass shareholders will need to consider carefully the independence and motives of any proxy-seeking "committees" and the validity of the material they may present.

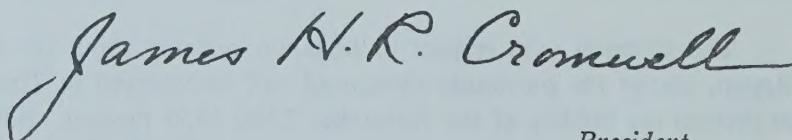
From the reception given to my last Report, your management is confident that shareholders will draw their own conclusions between independent appraisal of the current situation facing the Company and disguised efforts to return the control of your Company to those who brought it to the brink of ruin. Shareholders will recognize the motives of those, who for reasons of their own, may seek to interfere with the proposed new financing imperative for the growth of your company, and who might wish to replace the present management. Nor can shareholders misunderstand the purpose of those who may seek to replace the auditing firm which now serves your Company, in the light of the fact that our present auditors traced the transactions that are the bases of our present recovery suits and are developing possible evidence for further and larger claims.

Your management believes that the financing plan herein described which inaugurates our overall program of rehabilitation will recommend itself to shareholders and will gain their approval.

But this demands immediate and informed action by Sweet Grass shareholders. Remember that many hundreds of thousands of shares in the hands of "boiler room" operators and others were not voted at the last meeting! They could be voted against your Company's interests. Therefore, it is essential that you attend our April 4th meetings in the Library Room of the Biltmore Hotel, New York City, at 11:00 A.M. or

**MAIL YOUR PROXY PROMPTLY IF YOU DESIRE TO SUPPORT
YOUR MANAGEMENT'S PROGRAM.**

On Behalf of the Board of Directors,



President

Great Sweet Grass Oils Limited

**GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)**

CONSOLIDATED FINANCIAL STATEMENTS
For the Ten Months Ended October 31, 1959 Compared With
the Full Years Ended December 31, 1958 and 1957

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DAVID KESTENBAUM & Co.

PENNSYLVANIA 6-5972

CERTIFIED PUBLIC ACCOUNTANTS

DAVID KESTENBAUM, C.P.A.
JEROME BEARMAN, C.P.A.
REUBEN R. MANDEL, C.P.A.

33 West 42nd Street, New York

AUDITOR'S REPORT

To the Shareholders and Board of Directors
GREAT SWEET GRASS OILS LIMITED:

We have examined the accompanying consolidated balance sheet of Great Sweet Grass Oils Limited and its wholly-owned subsidiary Great Sweet Grass Oils Company (Oklahoma), as at October 31, 1959, and the consolidated statements of profit and loss, deficit and capital surplus, for the ten months ended October 31, 1959. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet as at October 31, 1959, and the accompanying consolidated statements of profit and loss, deficit and capital surplus for the ten month period then ended, together with the notes thereto present fairly the consolidated financial position of Great Sweet Grass Oils Limited and its wholly-owned subsidiary at October 31, 1959, and the results of operations for the ten months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DAVID KESTENBAUM & Co.

David Kestenbaum & Co.
Certified Public Accountants

New York
February 1, 1960

DAVID KESTENBAUM, C.P.A.
JEROME BEARMAN, C.P.A.
REUBEN R. MANDEL, C.P.A.

33 West 42nd Street, New York

AUDITOR'S REPORT

To the Shareholders and Board of Directors

GREAT SWEET GRASS OILS LIMITED:

We have examined the accompanying consolidated balance sheet of Great Sweet Grass Oils Limited and its wholly-owned subsidiary Great Sweet Grass Oils Company (Oklahoma), as at December 31, 1958, and the consolidated statements of profit and loss, deficit and capital surplus for the year ended December 31, 1958. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet as at December 31, 1958, and the accompanying consolidated statement of profit and loss, deficit and capital surplus for the year then ended, together with the notes thereto, present fairly the consolidated financial position of Great Sweet Grass Oils Limited and its wholly-owned subsidiary at December 31, 1958, and the results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DAVID KESTENBAUM & Co.

David Kestenbaum & Co.

Certified Public Accountants

New York

May 1, 1959

GREAT SWEET
AND ITS WHOLE
GREAT SWEET GRASS

CONSOLIDATED BALANCE
COMPARED WITH 1958 AND
(Stated in Canadian Dollars)

A S S E T S

	October 31, 1959	December 31,	
		1958	1957
CURRENT ASSETS:			
Cash	\$ 79,540.93	\$ 28,863.20	\$ 6,981.66
Cash Collateral U. S. \$5,000 (Note 2)	4,762.50	—	—
	<u>84,303.43</u>	<u>28,863.20</u>	<u>6,981.66</u>
Accounts Receivable—			
Trade	\$ 22,813.95	\$ 16,493.43	\$ 35,012.46
Other—Less Allowance for Doubtful Accounts \$5,866.10, \$855.30 and \$1,191.78	2,140.43	228.73	8,409.92
From Associates in Joint Lease Operations Less Amount Provided for in Reserve, \$5,256.03 in 1959 and \$6,831.72 in 1958	10,091.27	29,113.35	39,803.23
Total Accounts Receivable	<u>\$ 35,045.65</u>	<u>\$ 45,835.51</u>	<u>\$ 83,225.61</u>
Accrued Interest Receivable	512.50	—	—
Inventories of Supplies	5,448.63	7,430.27	19,064.69
Prepaid Expenses	2,012.60	1,923.36	6,284.34
TOTAL CURRENT ASSETS	<u>\$ 127,322.81</u>	<u>\$ 84,052.34</u>	<u>\$ 115,556.30</u>
NOTE RECEIVABLE: (Note 2) ¹	—	—	—
INVESTMENT IN AND ADVANCES TO SUBSIDIARIES, Not Consolidated: (Note 3)	<u>\$ 4.00</u>	<u>\$ 1,457.09</u>	<u>\$ 1,457.09</u>
OTHER ASSETS:			
Drilling and Other Deposits ²	\$ 19,982.40	\$ 29,703.10	\$ 29,877.66
Deferred Accounts Receivable Less Amount Provided for in Reserve: \$3,500 for 1959 and 1958 and \$5,681.50 for 1957 (Note 4)	82,354.18	38,219.78	16,818.45
Account Receivable in Dispute Less Amount Provided for in Reserve, \$4,804.47	—	5,006.27	—
TOTAL OTHER ASSETS	<u>\$ 102,336.58</u>	<u>\$ 72,929.15</u>	<u>\$ 46,696.11</u>
PROPERTY, LEASEHOLDS, EQUIPMENT—At Cost or Less Than Cost to Give Effect to Quasi-Reorganization Values at December 31, 1957, Less Accumulated Depreciation, Depletion and Amortization (Note 5)	\$1,681,418.36	\$1,983,362.89	\$2,246,546.54
Unamortized Organization Expense	767.55	1,315.80	3,732.79
	<u>\$1,911,849.30</u>	<u>\$2,143,117.27</u>	<u>\$2,413,988.83</u>

¹ Principal and Interest—Kroy Note—\$222,263.73, fully Reserved

² Includes Following Canadian Bonds

3% Dominion of Canada (Face \$3,000)	\$ —	\$ —	\$ 2,784.36
2 3/4% Dominion of Canada (Face \$3,000)	\$ 2,761.09	\$ 2,761.09	\$ —
3% Province of Quebec Hydro Electric (Face \$10,000)	9,412.50	9,412.50	9,412.50
	<u>\$ 12,173.59</u>	<u>\$ 12,173.59</u>	<u>\$ 12,196.86</u>

The Accompanying Notes For

**DILS LIMITED
SUBSIDIARY
COMPANY (OKLAHOMA)**

**AT OCTOBER 31, 1959
YEAR-END FIGURES
(Currency)**

L I A B I L I T I E S			
	<u>October 31, 1959</u>	<u>December 31,</u>	
		<u>1958</u>	<u>1957</u>
CURRENT LIABILITIES:			
Bank Overdraft	—	—	\$ 1,183.88
Long-Term Debts Due Within One Year— Secured (Note 6)	\$ 96,123.16	\$ 166,242.04	120,990.58
Other Bank Loans, Secured (Note 6)	—	4,500.00	—
Long-Term Debt Due Within One Year— Unsecured (Note 6)	1,650.00	—	—
Accounts Payable and Accruals	90,536.10	121,645.61	127,689.52
Contractual Settlement Payable (Note 7) ..	5,000.00	—	—
Accounts Payable Subsidiary (Unconsolidated)	—	2,946.12	—
	<u>\$ 193,309.26</u>	<u>\$ 295,333.77</u>	<u>\$ 249,863.98</u>
Accounts Payable Pending Legal Determination in Respect of :			
Former Management (Note 8)	\$ 132,822.06	\$ 132,922.06	\$ 142,322.03
Others (Note 9)	89,196.87	96,478.17	100,472.32
	<u>\$ 222,018.93</u>	<u>\$ 229,400.23</u>	<u>\$ 242,794.35</u>
	<u>\$ 415,328.19</u>	<u>\$ 524,734.00</u>	<u>\$ 492,658.33</u>
	<u>337.67</u>	<u>6,000.00</u>	<u>8,367.50</u>
	<u>201,598.94</u>	<u>169,909.39</u>	<u>157,168.67</u>
	<u>\$ 617,264.80</u>	<u>\$ 700,643.39</u>	<u>\$ 658,194.50</u>
DEFERRED LIABILITY: (Notes 4 and 8)			
LONG-TERM DEBT: (Note 6)			
SHAREHOLDERS' EQUITY: (Note 10)			
Authorized and Issued 5,000,000 Shares of Common Stock, Par Value \$1.00 a Share to April 2, 1959 Then Changed to a Par Value of 20 Cents a Share	\$1,000,000.00	\$5,000,000.00	\$5,000,000.00
Capital Surplus—(As Per Statement of Deficit and Capital Surplus)	442,473.88	1,439,069.04	1,439,069.04
	<u>\$1,442,473.88</u>	<u>\$6,439,069.04</u>	<u>\$6,439,069.04</u>
Less—Deficit Accumulated to January 1, 1959	—	4,996,595.16	4,683,274.71
	<u>\$1,442,473.88</u>	<u>\$1,442,473.88</u>	<u>\$1,755,794.33</u>
Less—Loss for 10 Month Period Ended October 31, 1959	147,889.38	—	—
Shareholders' Equity	<u>\$1,294,584.50</u>	<u>\$1,442,473.88</u>	<u>\$1,755,794.33</u>
CONTINGENT LIABILITIES: (Note 11)	<u>\$1,911,849.30</u>	<u>\$2,143,117.27</u>	<u>\$2,413,988.83</u>

APPROVED ON BEHALF OF THE BOARD

JAMES H. R. CROMWELL DIRECTOR

ROBERT B. BERGER DIRECTOR

**GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)**

CONSOLIDATED STATEMENT OF DEFICIT AND CAPITAL SURPLUS

For the Ten Month Period Ended October 31, 1959 and

For the Full Year Ended December 31, 1958

(Stated in Canadian Currency)

	<u>Deficit</u>	<u>Capital Surplus</u>
Balance January 1, 1958	\$4,683,274.71	\$1,189,069.04
Net Loss for the Year 1958	313,320.45	—
Balance December 31, 1958	<u>\$4,996,595.16</u>	<u>\$1,189,069.04</u>
Adjustment made to give effect to the reduction in the par value of the capital shares from \$1.00 each to 20¢ each, amounting to 80¢ for each of the 5,000,000 authorized, issued and outstanding shares as approved by the shareholders at the annual meeting held on November 22, 1958		4,000,000.00
Adjustment made to give effect to the quasi-reorganization of the company as at January 1, 1959 eliminating the accumulated consolidated deficit through December 31, 1958 and reducing Capital Surplus by the total of the deficit, such action also having been approved by the shareholders at the annual meeting held on November 22, 1958	<u>(4,996,595.16)</u>	<u>(4,996,595.16)</u>
Balance Adjusted at January 1, 1959	\$ —	\$ 192,473.88
Net Loss for the Ten Months Ended October 31, 1959	147,889.38	—
Balance October 31, 1959	<u>\$ 147,889.38</u>	<u>\$ 192,473.88</u>
Contributed Surplus		250,000.00
TOTAL CAPITAL AND CONTRIBUTED SURPLUS OCTOBER 31, 1959 ..		\$ 442,473.88

The Accompanying Notes Form an Integral Part of these Statements.

**GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Ten Month Period Ended October 31, 1959 and
For the Full Years Ended December 31, 1958 and 1957
(Stated in Canadian Currency)

	January 1, to October 31, 1959	For the Full Years	
		1958	1957
INCOME:			
Crude Oil and Gas Sales	\$406,967.92	\$472,889.14	\$422,174.17
Other Income—Schedule I	29,394.94	13,924.65	59,959.77
	<u>\$436,362.86</u>	<u>\$486,813.79</u>	<u>\$482,133.94</u>
COST AND EXPENSES:			
Production Expense	\$158,555.52	\$185,991.39	\$140,965.44
Special Re-Work Tilston Field	—	24,278.99	—
Lease Rentals and Mining Licenses.....	7,782.96	16,249.91	29,261.03
Geological and Exploration Expense	3,946.14	558.22	8,208.18
Engineers Salaries, Fees and Expense	23,404.75	24,832.01	16,425.17
Administration Expenses—Schedule II	109,349.65	165,364.71	210,235.14
Interest	17,911.04	21,851.37	20,610.92
Depreciation, Depletion and Amortization (Note 5)	167,311.28	240,142.27	212,547.19
Dry-Hole Costs (Note 5)	865.17	9,581.55	39,647.42
	<u>\$489,126.51</u>	<u>\$688,850.42</u>	<u>\$677,900.49</u>
NET OPERATING LOSS	<u>\$ 52,763.65</u>	<u>\$202,036.63</u>	<u>\$195,766.55</u>
ABANDONMENTS-EXTRAORDINARY AND/OR NON-RECURRING COSTS AND EXPENSES:			
Write-down of Investment Having no Quoted or Market Value	\$ —	\$ —	\$ 8,323.05
Former Directors' Expenses not Formally Approved	—	—	4,037.33
Legal and Accounting (Note 10)	23,967.67	49,203.25	—
Expenses Applicable to Hearings SEC	—	—	35,481.10
Proxy Solicitation Cost 1957, Approved By Shareholders at Meeting in 1958	—	12,283.07	—
Prior Period Adjustments (Note 10)	—	(4,531.54)	—
Leases and Properties Abandoned ¹	19,905.32	46,831.93	—
Evaluation Report-Mining Claims	—	262.50	—
Realized Losses on Foreign Exchange	2,925.98	—	—
Settlement, Garrett Employment Contract	14,287.50	—	—
Miscellaneous Items of Expense	—	—	—
Loss on Sale of U.S. Fixed Assets	34,039.26	7,234.61	—
	<u>\$ 95,125.73</u>	<u>\$111,283.82</u>	<u>\$ 47,841.48</u>
NET LOSS TO DEFICIT (Note 10).....	<u>\$147,889.38</u>	<u>\$313,320.45</u>	<u>\$243,608.03</u>

¹ ABANDONMENT CHARGED TO CURRENT REVENUE:

Duck Mountain	\$ —	\$16,480.00
1958 Property Expense	—	581.00
Lair & Trappell	—	289.46
Pierson, 8-11	—	6,970.69
Oklahoma Leases	11,714.81	22,510.78
Grande Prairie & Chatham	8,190.51	—
	<u>\$19,905.32</u>	<u>\$46,831.93</u>

The Accompanying Notes Form an Integral Part of these Statements.

**GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)**

Schedule I

CONSOLIDATED OTHER INCOME

(Stated in Canadian Currency)

	January 1, 1959 to October 31, 1959	For Full Years	
		1958	1957
Interest	\$ 745.83	\$ 745.83	\$ 10,949.78
Administrative and Overhead Expenses Recovered From Others	7,190.48	12,369.80	25,987.81
Profit From Sale of Investments in Marketable Securities			20,888.75
Gains on Prior Period Items	8,717.69		
Miscellaneous	494.88		2,133.43
Profit on Sale of Canadian Bonds		350.35	
Profit on Sale of Capital Assets	12,991.89	263.75	
Realized Gain on Foreign Exchange		194.92	
Total Other Income	<u>\$ 29,394.94</u>	<u>\$ 13,924.65</u>	<u>\$ 59,959.77</u>

Schedule II

CONSOLIDATED ADMINISTRATIVE EXPENSES

	January 1, 1959 to October 31, 1959	For Full Years	
		1958	1957
Executive Salaries	\$ 9,621.93	\$ 12,098.26	\$ 57,225.94
Office Salaries	15,406.69	15,407.84	22,494.84
Payroll Taxes and Insurance	673.31	515.89	1,545.79
Temporary Office Help	442.89	634.18	
Travel and Entertainment	10,547.22	5,539.98	15,006.51
Audit Fees and Expenses	15,097.78	17,000.00	12,696.90
Legal Fees and Expenses	10,717.31	24,175.73	27,645.56
Secretarial and Accounting Fees	7,137.00	9,600.00	5,935.00
Directors' Fees	7,697.54	9,319.18	9,068.16
Management Consultant Fees and Expenses.....		15,295.77	
Transfer Agent's Fees	7,611.34	12,524.96	8,677.74
Shareholders' Reports		7,477.78	13,767.62
Shareholders' Meeting Expenses	1,839.41	2,741.06	4,759.43
Advertising and Publicity	3,592.21	150.00	2,500.00
Office Rent, Heat and Light	6,308.85	7,517.40	8,568.87
Other Office Operating Expenses	8,824.20	8,017.70	10,742.19
Provision for Bad Debts	552.62	9,238.21	724.75
Miscellaneous and Corporate Taxes	3,279.35	7,410.77	8,875.84
Total Administrative Expenses	<u>\$109,349.65</u>	<u>\$165,364.71</u>	<u>\$210,235.14</u>

The Accompanying Notes Form an Integral Part of these Statements.

**GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 1958 and
For the Ten Months Ended October 31, 1959
(All Amounts in Canadian Dollars Unless Otherwise Stated)

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Great Sweet Grass Oils Limited and its wholly-owned subsidiary Great Sweet Grass Oils Company, an Oklahoma, U.S.A. corporation. All intercompany items and transactions have been eliminated in the consolidated financial statements.

The accounts of the Oklahoma subsidiary have been converted to Canadian dollars on the following bases:

Current assets and current liabilities—at the rate of exchange prevailing at December 31, 1958 or at October 31, 1959 whichever is applicable.

Fixed assets and long-term liabilities—at the rate in effect in the period in which the transaction took place.

Revenue and expenses—at the average rate for the year 1958 or the ten months of 1959, whichever is applicable.

Depletion and depreciation—at the same rates as the related fixed asset accounts.

The accounts of Hales Oil & Gas Ltd., 78.25% owned, and of two inactive subsidiaries, wholly-owned are not included in the consolidated financial statements, since together they do not constitute a significant subsidiary. (See Note 3 below).

(2) NOTE RECEIVABLE:

Kroy American Oils, Inc. is purported to have assumed the obligation provided in a certain note and act of mortgage, when its parent Kroy Oils Ltd. acquired properties from Coronet Development Corporation, in 1956.

Under the terms of the instruments the face amount, namely \$300,000, was to be repaid monthly, plus interest, at the rate of the money equivalent of $\frac{5}{8}$ ths of the monthly gross oil and gas runs of the working interest in the properties recited in the mortgage instrument.

Total payments received from Kroy American Oils, Inc. in reduction of the principal amount of the note amounted to U.S. \$77,773.48. All payments of principal and interest were discontinued early in 1957.

On April 7, 1958 the company instituted action against Kroy American Oils, Inc. in the First District Court, Parish of Caddo, State of Louisiana. The action, so filed was in the nature of one seeking a declaratory judgment to determine that the mortgage made by Coronet Development Corporation to Samuel Ciglen and Morris Black, allegedly securing a note in the principal sum of \$300,000.00, is a valid lien on oil and gas leasehold estates transferred to Kroy American Oils, Inc. The aforesaid mortgage and note were assigned subsequently to Great Sweet Grass Oils Limited.

The petition alleged there was a balance due on the mortgage and the note in the amount of U.S. \$222,226.73. On January 26, 1959, judgment was rendered in favor of Kroy American Oils, Inc. This judgment has been appealed to the Supreme Court of the State of Louisiana, where the case is still pending. On February 29, 1959 National Surety Corporation issued their collateral receipt as evidence of the company's cash collateral in the amount of U.S. \$5,000 covering an appeal bond in connection with this appeal.

On February 28, 1958, the company entered into an agreement with three (3) law firms by which they were retained to represent the company in this action, on a contingent fee basis, equal to 20% of all amounts recovered.

NOTES TO FINANCIAL STATEMENTS (Continued)

(2) NOTE RECEIVABLE: (Continued)

In view of the pending litigation, additional interest which has accrued beyond the amount included in the alleged action, has not been reflected in the financial statements.

In further consideration of such pending action and not because it is the view of the management that the unpaid balance (less the 20% contingent lawyers' fees) is not collectible, but to conform to accepted accounting principles in the circumstances, a full reserve has been raised against the total balance sheet amount of \$222,263.73.

See Note (8) in regard to further legal action for revision of transaction by which this Note was acquired.

(3) INVESTMENT IN AND ADVANCES TO SUBSIDIARIES NOT CONSOLIDATED:

Hales Oil and Gas Ltd. (an Alberta Company):—The company owned 31,300 shares out of 40,000 of the issued shares of the company. The value given to these shares is equal to the legal costs incurred at the time the transaction became effective. This amounted to \$1,453.09. Hales has one productive well. Its assets and operations are small in relation to Great Sweet Grass Oils Limited. Furthermore, it does not calculate income and write-offs of capital expenditures on the same basis as Great Sweet Grass Oils Limited. For these reasons its figures are not included in the consolidated financial statements.

On September 30, 1959 the company's interest in Hales Oil and Gas Ltd. was sold for \$5,931.71.

Sweet Grass Oils (BC) Limited and Great Sweet Grass Oils (Quebec) Ltd. are wholly-owned inactive subsidiaries. The investments therein are carried at \$1.00 and \$3.00 respectively.

(4) DEFERRED ACCOUNTS RECEIVABLE:

While this entire amount is considered to be good and collectible, nevertheless, to conform to accepted accounting principles, in the circumstances, it has not been included in the classification of "Current Assets."

Great Sweet Grass Oils Ltd., together with two other companies have a 50% joint interest in the Steveville Project. Canex Gas Limited formerly Canadian Export Gas Ltd., acquired its 50% working interest in the Steveville field under a farm-out agreement dated June 25, 1954.

Under this farm-out agreement Canex was required to provide a fund of \$900,000.00 for the cost of drilling a certain number of gas wells in that field.

After a total expenditure of \$530,758.32, the balance of the original \$900,000.00 fund was reduced to \$369,241.68. Out of this balance \$262,506.00 was expended for a gathering system and processing plant. The gathering system and processing plant is carried at the nominal value of \$1.00. The balance of \$106,735.68 is to be distributed according to the respective interests of all parties.

The respective interests of Sweet Grass and each of its two associates in the properties and wells covered by the farm-out agreement and in this joint fund, as well, is still unresolved.

By agreement between all the parties, \$39,071.84 the balance payable to Sweet Grass and each of its two associates, was deposited in trust with National Trust Company Ltd., to be distributed to each of them according to the final determination of their respective interests.

In like manner, proceeds from sale of gas, from August 1958 to date, in which the parties have a joint interest have been deposited, also with National Trust Company Ltd. From August 1958 to October 31, 1959 this amounted to \$137,615.84.

Pending final determination of its undisputed interest in all these funds and properties, Sweet Grass has asserted and is carrying its interest at a minimum of 37½% of the joint 50% interest. On this basis, Sweet Grass has credited itself with \$71,702.56 of the total funds held in Trust at October 31, 1959 and \$14,188.00 for expenses incurred for its two associates.

Refer to Note (6) for related items.

(5) FIXED ASSETS:

SUMMARY OF ACCOUNTING PRACTICES

Acquisition costs of petroleum and natural gas interests are capitalized. In certain cases acquisition costs were revised in 1957 to give effect to revaluations authorized by the Board of Directors. Exploration expenditures are deferred until the results can be assessed, at which time they are capitalized as costs of the properties retained or are written off to income, as appropriate. Costs of abandoned

NOTES TO FINANCIAL STATEMENTS (Continued)

(5) FIXED ASSETS: (Continued)

properties are written off at the time of surrender. Costs of wells which are capable of producing in commercial quantities are capitalized. Dry hole costs are written off in the period in which they are determined to be non-productive. Lease and reservation rentals and other carrying charges on undeveloped properties are charged to income at time of payment.

Depletion of producing property costs and amortization of producing well costs are provided for by the unit of production method, based upon estimates of commercially recoverable oil and gas reserves prepared by independent consulting geologists. Depreciation of production equipment, buildings, etc. is provided on the straight-line method at rates estimated to be sufficient to recover the cost of the assets over their useful life.

Maintenance and repairs are charged to expense when incurred and betterments which extend the useful life of the assets are capitalized.

On retirement or sale of items of property the difference between the net book value of the items and the proceeds, if any, is charged or credited to the income account.

Where property is acquired without direct cost, a nominal value of \$1.00 is assigned to each property so acquired, for purposes of record and control only.

Consistent with such accounting practices, changes were made in the various property accounts to give effect to certain events arising in 1958 and during the ten month period ended October 31, 1959. These are reflected in the following table:

	October 31, 1959	December 31, 1958	December 31, 1957
Oil and Gas Producing Properties	\$1,694,576.51	\$1,727,489.45	\$1,411,202.18
Production Equipment	215,794.59	235,771.32	212,478.23
Standing Wells	67,003.94	91,019.01	372,196.09
Non-Producing Properties :			
Proven Undeveloped	352,466.09	352,466.09	338,445.49
Undeveloped and Unproven	18,178.10	32,390.26	100,118.04
Interest in Steveville Joint Fund	—	—	1.00
Interest in Steveville Gathering System	1.00	1.00	—
Mining Properties	5,000.00	5,000.00	5,000.00
Improved Real Estate	—	78,293.56	115,375.77
Leasehold Improvements, Furniture, Fixtures and Automotive Equipment	10,845.15	25,230.94	26,778.64
Total	<u>\$2,363,865.38</u>	<u>\$2,547,661.63</u>	<u>\$2,581,595.44</u>
<i>Less:</i> Accumulated Depletion, Depreciation and Amortization	682,447.02	564,298.74	335,048.90
TOTAL FIXED ASSETS—NET	<u>\$1,681,418.36</u>	<u>\$1,983,362.89</u>	<u>\$2,246,546.54</u>

As indicated in Note 4, the company has a minimum interest of 18.75% in the gathering system, installed for the Steveville gas wells. The cost of this installation amounted to \$262,506.00 and was financed out of the unexpended portion of the \$900,000.00 fund provided by Canex under its farm-out agreement. This has been given a nominal value of \$1.00 for record and control purposes only.

On March 6, 1959 an action was filed in the District Court of Garvin County, Oklahoma, against the Oklahoma Company and other parties by Exchange Oil Company, to partition ownership of certain oil and gas leases known as the North Hoover Field in Garvin County. Of the 17 wells located in this field 16 are owned jointly by Great Sweet Grass Oils Company and Exchange Oil Company, each having an undivided one-half interest therein. The remaining one well is owned jointly by Great Sweet Grass Oils Company, Exchange Oil Company and Edwin Cox. Their interests in said well are 25% each for Great Sweet Grass Oils Company and Exchange Oil Company with the remaining 50% owned by Edwin Cox.

Counsel advises that this action does not dispute the title of the company to its interest in their leases, but merely seeks a partition in-kind; or if that is not possible, then a sale of the leases at public auction. On December 7, 1959 the decision of the court was handed down, granting such partition.

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) LONG TERM DEBT—ASSETS PLEDGED:

(Stated in Canadian Funds)

	<u>Long-Term Portion</u>	<u>Current Portion</u>	<u>Total Amount Outstanding</u>
(a) Bank of Nova Scotia:			
12-31-58	\$ —	\$ 4,500.00	\$ 4,500.00
10-31-59	—	—	—
(b) First National Bank and Trust Company of Oklahoma City:			
12-31-58	134,232.00	161,968.80	296,200.80
10-31-59	44,903.77	96,123.16	141,026.93
(c) Building Mortgage—First National Bank and Trust Company of Oklahoma City:			
12-31-58	35,677.39	4,273.24	39,950.63
10-31-59	—	—	—
(d) Loan-Ranger Oil (Canada) Ltd.:			
12-31-58	—	—	—
10-31-59	154,895.17	—	154,895.17
(e) Notes Payable—Burbank Holdings Limited:			
12-31-58	—	—	—
10-31-59	1,800.00	1,650.00	3,450.00
TOTAL LONG TERM DEBT			
12-31-58	<u>\$169,909.39</u>	<u>\$170,742.04</u>	<u>\$340,651.43</u>
10-31-59	<u>201,598.94</u>	<u>97,773.16</u>	<u>299,372.10</u>

(a) This is the balance of a \$13,500 loan obtained from the Bank of Nova Scotia. Registration of Caveats in favor of the bank was completed between April 17, 1958 and May 2, 1958. Checks for oil runs taken by Imperial Oil Limited out of Tilston, Whitewater and Pierson fields were paid directly to the Bank of Nova Scotia for disposition. As at October 31, 1959 this loan has been satisfied.

(b) On March 31, 1958, the Oklahoma subsidiary company refinanced its then existing production loan with the First National Bank and Trust Company of Oklahoma City. The loan is evidenced by a note and mortgage, the original principal amount of which was U. S. \$420,000 and secured by a mortgage on the Oklahoma Properties. Consistent with the terms of the related instruments, the bank had been and is receiving currently, the gross income from oil and gas runs of the North Hoover Field (Richardson Leases) monthly. Beginning with April 30, 1958, 75% of such proceeds are applied first toward the payment of interest at the rate of 6% per annum and the remainder toward the reduction of the principal amount of the note. In each month of the current year, such remainder was less than the minimum of \$14,000.00 a month required to be paid under the loan agreement. Nevertheless, payments of \$14,000.00 had been made monthly, beginning with April 30, 1958, except for the month of October, 1958, which had been waived by the bank.

In addition to the security recited herein the obligation is guaranteed by Eugene and Julia Jordan. On or about March 27, 1958 the company entered into an agreement with Exchange Oil Company and/or Eugene Jordan for the management of its Oklahoma Properties.

In October, 1958, the company entered into an agreement with Mr. Eugene Jordan under which because of the guaranty executed by himself and his wife he would have first refusal in the event of sale by the company of any of its oil and gas properties in Oklahoma. Under this agreement Mr. Jordan has the opportunity to purchase any of these oil and gas properties upon the same terms and conditions made available to any other purchaser, and he has 30 days in which to buy at the price and upon such terms as may be acceptable to the company from other parties. This agreement is to remain in full force and effect until the aforementioned bank loan is paid in full or sooner, if Mr. Jordan and his wife are relieved from their obligation as guarantors.

On December 29, 1959 the company received the net proceeds from the Empire Trust Company of New York City for a loan of (U. S.) \$175,000.00 negotiated to refinance the balance of this production loan, the entire amount of which would have become due on February 29, 1960. (See Note 12 for details). Consequently, the balance of the First

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) LONG TERM DEBT—ASSETS PLEDGED: (Continued)

National Bank and Trust Company loan is apportioned above on the basis of showing as the current portion the actual amount payable during the next twelve months under normal circumstances without the possible application of acceleration clauses in the Empire Trust Company loan agreement. (See Note 12 for these).

(c) This note was secured by a first mortgage on the improved business property situated in Oklahoma City, Oklahoma. Upon the sale of this property on August 19, 1959, this liability was eliminated.

(d) Under an agreement dated February 16, 1959, this loan was obtained from Ranger Oil (Canada) Ltd. The agreement recites that differences have arisen between Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd., on the one part, and Georgia Leaseholds Limited, on the other, concerning their respective shares of their undivided fifty per cent interest in the Steveville Gas Field, and that Georgia Leaseholds Limited intends to commence legal action to define its interest therein.

The agreement with Ranger Oil (Canada) Ltd. provides as follows:

(1) The collective interests of Great Sweet Grass Oils Limited are apportioned between them in the proportion of an undivided 24/37ths part thereof to Great Sweet Grass Oils Limited and an undivided 13/37ths thereof to Ranger Oil (Canada) Ltd. In the event that Georgia Leaseholds Limited is determined to be the owner of any interest, the collective interest of Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd. in such leases in which Georgia Leaseholds Limited is determined shall be apportioned in the ratio of 24 to 13.

(2) Ranger Oil (Canada) Ltd. is lending to Great Sweet Grass Oils Limited, contemporaneously with the execution and delivery of the agreement, the sum of \$100,000.00. As security therefore Great Sweet Grass Oils Limited gives to Ranger Oil (Canada) Ltd. a first mortgage upon one-third of the interest in the Steveville Gas Field of Great Sweet Grass Oils Limited.

(3) Great Sweet Grass Oils Limited agrees to repay said sum of \$100,000.00 to Ranger Oil (Canada) Ltd., together with interest at 6% per annum as follows: (i) at the time National Trust Company Limited, which is holding in trust 50% of net proceeds from the sale of production from the Steveville Field for the account of the three parties concerned, makes a first distribution of said funds, one-half of the amount payable to Great Sweet Grass Oils Limited, but not in excess of \$50,000.00; (ii) one-third of all monies which shall become payable by the said trust company to Great Sweet Grass Oils Limited after the date of such first distribution, and (iii) the net proceeds of production from the one-third interest of Great Sweet Grass Oils Limited subject to the mortgage given as security for the loan, until the loan with interest is paid in full. Great Sweet Grass Oils Limited has the right to repay all or any part of the loan at any time.

(4) Great Sweet Grass Oils Limited agrees to sell to Ranger Oil (Canada) Ltd., and the latter agrees to purchase, 2% of the entire working interest of all parties in the Steveville Field for \$50,000.00 payable in cash upon conveyance thereof.

(5) Ranger Oil (Canada) Ltd. agrees to lend Great Sweet Grass Oils Limited upon request made on or before July 1, 1959 the additional sum of \$50,000.00 bearing interest at 6% per annum. If such additional loan is made, it shall be repaid upon determination of the interest of Georgia Leaseholds Limited by conveyance of the aforementioned 2% interest. This \$50,000.00 was received in July upon due notice.

(6) Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd. agree to aid and assist each other in the litigation which Georgia Leaseholds Limited intends to commence to determine its interest in the Steveville Field.

(7) Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd. agree to pool their respective natural gas rights in the Basal Colorado and Blairmore formations of which each is the sole beneficial owner, so that the same shall be owned, developed and operated for their joint account in the proportions of an undivided two-thirds and one-third interest respectively.

Because there appears to be no definite date for the release of the funds held by National Trust Company Limited, nor as to the release of current and future monthly revenues this entire amount of \$100,000 is being carried as a long-term debt. (See Note 4).

(e) At March 31, 1959 Great Sweet Grass Oils Limited owned a 75% interest in the Tilston #11-31 well with Burbank Holdings Limited owning the remaining 25% interest. As of March 31, 1959 Great Sweet Grass Oils Limited purchased this remaining 25% interest from Burbank Holdings Limited in return for its unsecured note in favor of Burbank amounting to \$4,500.00 payable at the monthly rate of \$150.00 with interest at 6% payable annually on the unpaid balance at December 31 of each year. The monthly payments of \$150.00 commenced on May 1, 1959.

NOTES TO FINANCIAL STATEMENTS (Continued)

(7) DEFERRED ACCOUNT PAYABLE—SETTLEMENT:

In 1958, the company entered into a settlement agreement with John Vogan regarding his claim for severance pay under his contract of employment with the company. It was agreed that the company would pay Vogan \$9,000.00 in full settlement of his claim and that mutual releases would be exchanged. The company paid \$3,000.00 of the claim in 1958. Payment of the \$6,000.00 balance has been deferred until the company commences to receive proceeds from the sale of gas taken from the Steveville wells. As at August 10, 1959 all revenues were being deposited in Trust. Since revenues from these wells, which belong to the company are being held in Trust (See Note 4) and the accounts receivable relating thereto as a deferred asset, the \$6,000.00 claim by Vogan, which company's solicitors believe to be enforceable, was being carried as a deferred liability. On February 1, 1960 this claim was fully settled by a cash payment of \$5,000.00 and for this reason the liability is now shown as a current liability in the reduced amount.

(8) ACCOUNTS PAYABLE PENDING LEGAL DETERMINATION IN RESPECT OF FORMER MANAGEMENT:

Deferred Liability—Former Management:

Company's Canadian solicitors have advised that there has been no change in their opinion as to the status of the accounts included in this category, since reporting thereon in their letter of July 24, 1958, except for one account amounting to \$1,500.00.

At a directors' meeting held in November, 1958 the Canadian solicitors were authorized to commence an action against Samuel Ciglen, Morris Black and others in respect of the transaction by which the company acquired 1,000,000 shares of Golden West Minerals Limited and subsequently acquired all the assets of Golden West Minerals Limited. Legal action has been commenced in accordance with instructions of the board. A writ was issued on the 4th day of February 1959 and a statement of claim relating thereto was filed in the Supreme Court of Ontario on February 18, 1959. The company claims revision of the agreements by which the shares and the properties were acquired, and, in the alternative, damages amounting to \$1,363,045.02 against its former officers, directors, Ontario Cobalt Mines Limited, Torny Financial Corporation and others.

A Statement of defense on behalf of Samuel Ciglen was delivered to the Supreme Court of Ontario on March 26, 1959. On November 17, 1959 two counter actions were filed in the Supreme Court of Ontario on behalf of Samuel Ciglen. One of these actions, which are now also pending, seeks payment of \$95,000 in fees for services in 1954, 1955 and 1956, liability for which is disputed by this company. The other action seeks specific performance on a purported agreement between the company and Samuel Ciglen to a settlement of all differences, or, in the alternative, damages of an unspecified amount.

At the same board meeting, in November, 1958 a second action was authorized in respect of the \$300,000 note and collateral mortgage obtained from Samuel Ciglen and Morris Black. The writ and statement of claim have been prepared to include Torny Financial Corporation and the writ was issued on September 1, 1959.

On October 6, 1959 an action was filed in the Supreme Court of Alberta on behalf of Sanford, Dickie & Oughton, plaintiffs, against this company. This pending action seeks payment of claimed fees of \$12,321.30, the amount of which this company disputes.

In view of these circumstances counsel advises that nothing should be paid on any of the accounts included in the "Pending Legal Determination" category, except for the above mentioned account in the amount of \$1,500.00 which has been transferred to Accounts Payable—Trade.

(9) ACCOUNTS PAYABLE PENDING LEGAL DETERMINATION IN RESPECT OF OTHERS:

Liabilities included in this category represent fees billed by attorneys who have represented the company in the past, Torny Financial Corporation and other companies with which Sweet Grass had many and frequent dealings, all of which were incurred by the former management. None of these claims have been pressed against the company, and Canadian counsel advises against the payment of any part thereof, until certain transactions involving former management, associated companies and others have been fully investigated. In accordance with accepted accounting principles, however, the aggregate amount of the liabilities falling within this category is being carried in the current liability section of the balance sheet pending final legal determination.

NOTES TO FINANCIAL STATEMENTS (Continued)

(10) STOCKHOLDERS EQUITY—QUASI-REORGANIZATION:

On August 31, 1958 the board of directors approved a reduction in the par value of the capital stock of the company from \$1.00 per share to 20¢ a share subject to the approval of the shareholders and to the issuance of supplementary letters patent under the provisions of the Corporations Act of the Province of Ontario.

The shareholders approved the board's action at the annual meeting of the shareholders held in New York City on November 22, 1958. Supplementary letters patent giving effect to the reduction in the par value per share, from \$1.00 to 20¢, were granted on April 2, 1959. The effect of this change is shown in the following table:

	Capital Stock	Capital Surplus
Balances shown by accompanying consolidated balance sheets	\$5,000,000.00	\$1,189,069.04
Reduction of Par Value from \$1.00 per share to 20¢ per share	<u>(4,000,000.00)</u>	4,000,000.00
Balances by reason of reduction in par value from \$1.00 per share to 20¢ per share	\$1,000,000.00	\$5,189,069.04
Contributed surplus		250,000.00
Total capital surplus and contributed surplus after adjustments		\$5,439,069.04
Reduced by amount applied to eliminate deficit at December 31, 1958*		4,996,595.16
Adjusted balances at December 31, 1958	<u>\$1,000,000.00</u>	<u>\$ 442,473.88</u>
* Reduction by amount of deficit as follows:		
Deficit at December 31, 1957	\$4,683,274.71	
Loss for the year ended December 31, 1958	<u>313,320.45</u>	
Total Reduction	<u>\$4,996,595.16</u>	

The entire loss for 1958 was absorbed in the Quasi-Reorganization adjustment. The effect of this was to remove the operating deficit accumulated to December 31, 1958, which amounted to \$4,996,595.16.

Included in the charges made against the 1958 consolidated revenues and against the revenues for the ten month period ended October 31, 1959 were the following extraordinary items:

(a) Expenses incurred for solicitation of proxies for the shareholders' meeting of September 24, 1957 in the amount of (U. S.) \$12,283.07. This item was not included in the expenses of 1957 but was reported as a contingent liability in the 1957 annual report, pending approval of shareholders. At the last annual meeting of shareholders held on November 22, 1958, this item was approved and recognized as a liability of the company.

(b) Legal and accounting costs beyond the ordinary requirements of the business amounted to \$49,203.25 in 1958 and \$23,967.67 for the ten months ended October 31, 1959.

(c) Permits relating to the Duck Mountain area of Manitoba were allowed to lapse. The attending loss amounted to \$16,480.00.

(d) The Chalu residence in Oklahoma City was sold on February 10, 1958 with an attending loss of U. S. \$9,737.50.

(e) Oklahoma acreage abandoned upon expiration of leases, \$22,510.78 in 1958 and \$11,714.81 in the ten months ended October 31, 1959. In addition, leases acquired in Canada prior to 1957, were abandoned in the amount of \$8,190.51.

(f) The contract Settlement of the Garrett suit (U. S.) \$15,000 in August 1959. This had been carried as a contingent liability in the 1958 statements.

(g) Losses on fixed assets sold during the ten months ended October 31, 1959 amounted to \$34,039.26. In June of 1959 the Amos "B" and Martha Smith #1 leases were sold to the highest bidders for a total of (U. S.) \$40,503.00.

NOTES TO FINANCIAL STATEMENTS (Continued)

(10) STOCKHOLDERS EQUITY—QUASI-REORGANIZATION: (Continued)

On August 19, 1959 the land, building and furniture of the Oklahoma City office was sold for (U. S.) \$68,500.

The result of this transaction together with the sale of the equipment on the above two leases in addition to the uneconomic lease interests resulted in a net loss of \$34,039.26.

(11) CONTINGENT LIABILITIES—NOT REFLECTED IN FINANCIAL STATEMENTS:

Kroy Oils Limited:

Included in the statement of account rendered by Kroy Oils Limited at December 31, 1957 were charges approximating \$7,000 covering expenses incurred for solicitation of proxies for the meeting of the shareholders of Great Sweet Grass Oils Limited held on September 24, 1957 and other unexplained items. Company's counsel has advised that such charges relating to proxy solicitation may not be properly assessed against this company without prior shareholders' approval.

Certain legal expenses incurred by Kroy Oils Limited in connection with hearings before the U. S. Securities and Exchange Commission on behalf of itself and Great Sweet Grass Oils Limited were arbitrarily allocated by Kroy on the basis of two thirds to Great Sweet Grass Oils Limited and one-third to Kroy. There does not appear to be any basis for such an apportionment. The accompanying financial statements reflect an apportionment on the basis of only one-half of these expenses being chargeable to this company, or approximately \$6,000 less than on the basis claimed by Kroy.

The company's solicitors have advised that there has been no change in the status of this claim.

David Dooley:

David Dooley of Oklahoma City has asserted a claim against the parent company and Kroy Oils Limited in the approximate amount of (U. S.) \$23,000. The claim makes reference to work purported to have been performed by him at the time the company originally acquired properties in Oklahoma from Depositors Mutual Oil Development Company. The company has denied any liability on this claim.

Alexander J. Jacoby:

During 1958 a claim against the company was made by him to five-sixths of one per cent of the company's share of the net proceeds from the sale of natural gas in the Steveville Field. On October 28, 1959 an action in this regard was filed against this company on behalf of Alexander J. Jacoby in the United States District Court for the Southern District of New York. Company's solicitors express serious doubt of his rights to any interest in such proceeds.

(12) EVENTS SUBSEQUENT TO BALANCE SHEET DATE:

On December 29, 1959 the company received from the Empire Trust Company of New York the proceeds from a (U. S.) \$175,000 refinancing production mortgage loan on its holdings in Oklahoma. As additional security, there is a guarantee of this loan on the part of the Canadian parent company. The terms of the loan provide for monthly repayment of principal at the rate of (U. S.) \$7,756 together with interest at $5\frac{3}{4}\%$ per annum.

The loan agreement provides for accelerations of payments in the event of sales of assets covered by the mortgage agreement, to the extent that should the company sell its interest in the Richardson leases in the North Hoover field in Oklahoma, (U. S.) \$122,500 of the proceeds would be applied against the loan on account of principal and interest. In like manner should the company sell the "McClain" Leases in the East Brady field in Oklahoma, (U. S.) \$35,000 of the proceeds from such sale would be applied against the loan on account of principal and interest.

Great Sweet Grass Oils Limited

Executive Office: 59 E. 54TH STREET, NEW YORK 22, N. Y.